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DE RUEHGO #0307/01 1231019
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O 021019Z MAY 08
FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7459
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 1101
RUEHBJ/AMEMBASSY BEIJING 1833
RUEHKA/AMEMBASSY DHAKA 4841
RUEHNE/AMEMBASSY NEW DELHI 4648
RUEHUL/AMEMBASSY SEOUL 8189
RUEHKO/AMEMBASSY TOKYO 5751
RUEHCN/AMCONSUL CHENGDU 1435
RUEHCHI/AMCONSUL CHIANG MAI 1537
RUEHCI/AMCONSUL KOLKATA 0293
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEHGV/USMISSION GENEVA 3624
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 1503
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000307

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STATE FOR EAP/MLS, INR/EAP, EEB/TRA
PACOM FOR FPA
TREASURY FOR OASIA

E.O. 12958: DECL: 05/02/2018
TAGS: ECON PREL PGOV EAIR BM
SUBJECT: BURMA: MYANMAR AIRWAYS INTERNATIONAL DOWN, BUT NOT
OUT

REF: A. RANGOON 004

1B. 7 RANGOON 1098

RANGOON 00000307 001.2 OF 003

Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

11. (C) Summary. Myanmar Airways International (MAI), one of Burma's two international airlines, recently lost one of its planes due to the sudden cancellation of its wet-lease contract and was forced to halt flights to Bangkok and Kuala Lumpur beginning on April 24. Although it just signed a one-year lease for an A319 with Bhutan-owned Druk Airlines in January, Druk Air cancelled its contract for political reasons. According to MAI General Manager Aung Gyi, the King of Bhutan, who was a personal friend of Aung San Suu Kyi and her husband when he lived in England, refused to support the contract because of his disapproval of the GOB's continued house arrest of ASSK. Aviation contacts intimated that MAI lost its contract because it could not pay Druk Air its monthly fee of \$100,000. Despite alleged financial difficulties, MAI on April 26 secured a new one-year contract for an MD-83 with Orient Thai and will to resume flights on May 3. Aung Gyi complained about U.S. sanctions, noting that MAI continues to have problems with financial transactions and must use Singapore dollars to circumvent sanctions. End Summary.

Easy Come, Easy Go

12. (C) Myanmar Airways International (MAI), a joint venture between the Burmese Government and Singapore company Region

Air, once again lacks an airplane to fly to Bangkok and Kuala Lumpur. Last October, MAI was forced to halt its international flights when it could no longer afford to pay its aircraft leases and insurance premiums (Ref B). After receiving an injection of capital from Region Air, MAI secured a one-year wet-lease for an Airbus 319 from Bhutan-owned Druk Airlines (Ref A). MAI resumed its flights in mid-January, and boasted an average passenger load of 50 percent -- enough to turn a slight profit. However, in mid-April, MAI received notice from Druk Airlines that it was canceling the contract due to political concerns. MAI once again halted flights to Bangkok and Kuala Lumpur on April 24, shuffling passengers to Thai Airways, Air Bagan, and Malaysian Airlines.

¶3. (C) MAI General Manager Aung Gyi explained that while the owners of Druk Airline supported the lease, the King of Bhutan, who was a personal friend of ASSK and her family when he lived in England, forced the company to suspend the contract because he disagreed with the GOB's continued house arrest of ASSK. Region Air officials attempted to persuade Druk Air officials to change the King's mind, arguing that MAI received no funds from the GOB even though the GOB owned 51 percent of the company. The pleas fell on deaf ears, Aung Gyi lamented. Although the contract stipulated a one-month advance notice for contract cancellation, Druk Air gave MAI only two weeks notice, he stated.

¶4. (C) Several aviation contacts hinted that there were other reasons for Druk Air's decision to cancel the contract. Thai Airways Manager Surariddhi Boon-Long told us that MAI was losing money hand over fist, and that it had been late in paying its catering and airport fees in both Burma and Thailand. He indicated that MAI was also several months behind in paying Druk Air the monthly rental fee of \$100,000. Druk Air decided to cut its losses before it lost any more

RANGOON 00000307 002.2 OF 003

money, he opined.

¶5. (C) Despite the two-week notice, MAI quickly secured another plane lease, signing a wet-lease contract for an MD-83, three Thai pilots, and a maintenance contract with Orient Thai on April 26. MAI paid a \$400,000 deposit and will pay monthly rental costs of \$80,000 a month under this lease, Aung Gyi told us. MAI officials already secured landing permits from the civil aviation authorities in Thailand and Malaysia, and recently received insurance confirmation from Lloyds of London. MAI will resume flights to Bangkok on May 3; flights to Kuala Lumpur should resume by May 5.

MAI in Financial Dire Straights?

¶6. (C) Aung Gyi told us that given recent events, it would be difficult for MAI to turn a profit in 2008. MAI hopes that Druk Air will return its \$400,000 deposit, which it will put toward the cost of the new lease. However, the MD-83 will be more expensive to operate, he noted, since it consumes 40 percent more fuel than the newer A319 (approximately 1000 gallons an hour versus 650 gallons per hour). As a result of higher fuel consumption and the inability to raise ticket prices (competition in the Rangoon-Thai market is stiff), MAI will have a substantially lower profit margin. Aung Gyi commented that it would have to increase its passenger loads on its flights to Singapore, a code-share with JetStar, in order to cover the costs of flying to Bangkok and Kuala Lumpur. This, he noted, was unlikely, so MAI will probably be in the red by the end of 2008. To stay operational, MAI may look for another injection from Region Air in 2009, he hinted.

¶7. (C) In addition to high costs and lower profits, MAI has also experienced difficulties recently with its financial transactions out of Singapore. Aung Gyi noted that MAI

maintains an account with UOB with little problem and that it can remit payments to its creditors. However, two weeks ago, an MAI payment to Thailand (in US dollars) bounced back to UOB without explanation. MAI changed the dollars into Singapore dollars and paid its bill with no problem, but had to pay high transaction and exchange costs. Additionally, MAI is unable to transfer money from its IATA Clearinghouse account in the U.S. to Singapore, probably due to U.S. sanctions, Aung Gyi lamented. While keeping the money in the IATA account was not a problem for MAI since it can be used to pay any international aviation fees, he questioned why his company was being targeted even though it was not on the U.S. sanctions list. We explained that sanctions banned financial transactions to Burma or to Burmese companies. He questioned the efficacy of U.S. sanctions, noting that legitimate Burmese businesses and the Burmese people were affected rather than the senior generals.

Comment

¶ 8. (C) This is not the first time that MAI has had banking and financial difficulties, nor will it be the last. While MAI considers itself to be a private company because the GOB is an owner in name only, the reality is that it is a joint venture with the government. We expect that as MAI continues to find its financial transactions blocked or "bounced back", it will move toward using Singapore dollars to circumvent the sanctions. However, it will still face difficulties in covering its expenses, so its prospects remain doubtful.

RANGOON 00000307 003.2 OF 003

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